



LOCAL INITIATIVES SUPPORT CORPORATION
(Parent Only)

**Financial Statements and Supplementary Information on
Federal Awards Programs**

December 31, 2011

**(With Independent Auditors' Report
and Reports on Internal Control and Compliance Thereon)**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date **DEC 12 2012**

LOCAL INITIATIVES SUPPORT CORPORATION
(Parent Only)

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KPMG LLP
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New York, NY 10154-0102

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Independent Auditor's Report

The Board of Directors
Local Initiatives Support Corporation:

We have audited the accompanying statement of financial position of Local Initiatives Support Corporation (Parent Only) (the Organization) as of December 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2010 financial statements and, in our report dated September 30, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1 to the financial statements, the accompanying financial statements were prepared for the purpose of reporting under the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Under the date of September 25, 2012, we have reported on the consolidated financial statements of Local Initiatives Support Corporation and affiliates as of and for the year ended December 31, 2011, and rendered our unqualified opinion thereon.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Local Initiatives Support Corporation (Parent Only) as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the financial statements, the Organization has elected to change its method of accounting for its interest in controlled affiliates, in 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2012 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the schedule of indirect cost rate for the year ended December 31, 2011, are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards and schedule of indirect cost rate are fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

September 25, 2012

LOCAL INITIATIVES SUPPORT CORPORATION
(Parent Only)

Statement of Financial Position

December 31, 2011

(With summarized comparative financial information
as of December 31, 2010)

Assets	Operating funds		Loan funds		2011 Total	2010 Total
	Unrestricted	Temporarily restricted	Unrestricted	Temporarily restricted		
Cash and cash equivalents (notes 3 and 11)	\$ 4,657,065	10,118,400	47,808,836	1,792,571	64,376,872	19,775,089
Investments (notes 3 and 11)	26,010,647	43,076,737	2,841,195	45,607,911	117,536,490	133,666,132
Investments in affiliates (notes 1, 14, and 15)	49,478,246	—	—	—	49,478,246	34,841,015
Due from investment manager	6,338,790	—	—	—	6,338,790	—
Accrued interest receivable	2,318,696	—	—	—	2,318,696	3,000,927
Contributions receivable, net (note 4)	39,696	22,745,499	—	—	22,785,195	36,041,398
Government contracts receivable (note 5)	601,267	18,091,474	—	—	18,692,741	16,714,378
Other assets	1,196,688	28,585	—	2,000,000	3,225,273	4,939,909
Due from affiliates (note 15)	1,824,855	—	—	—	1,824,855	1,870,619
Loans to Community Development Projects (CDPs) and affiliates projects (notes 6, 9, and 15)	—	—	146,045,424	504,509	146,549,933	154,009,593
Allowance for uncollectible loans (note 6)	—	—	(15,641,425)	—	(15,641,425)	(12,776,123)
Total loans, net	—	—	130,403,999	504,509	130,908,508	141,233,470
Recoverable grants to CDPs, net (notes 6 and 15)	5,065,968	1,771,124	—	—	6,837,092	8,100,600
Prepaid expenses and deposits	374,314	—	—	—	374,314	566,328
Furniture, equipment, and leasehold improvements, net (note 8)	2,638,455	—	—	—	2,638,455	2,568,334
Total assets	\$ 100,544,687	95,831,819	181,054,030	49,904,991	427,335,527	403,318,199
Liabilities and Net Assets						
Liabilities:						
Accounts payable and accrued expenses (note 13)	\$ 11,462,559	395,343	—	10,956	11,868,858	12,446,992
Grants payable (note 7)	—	22,892,187	—	—	22,892,187	23,266,398
Loans payable (note 9)	—	—	196,695,455	—	196,695,455	196,387,168
Total liabilities	11,462,559	23,287,530	196,695,455	10,956	231,456,500	232,100,558
Commitments and contingencies (notes 9, 11, 12, and 13)	—	—	—	—	—	—
Net assets (deficit) (notes 1 and 2)	89,082,128	72,544,289	(15,641,425)	49,894,035	195,879,027	171,217,641
Total liabilities and net assets	\$ 100,544,687	95,831,819	181,054,030	49,904,991	427,335,527	403,318,199

See accompanying notes to financial statements.

LOCAL INITIATIVES SUPPORT CORPORATION
(Parent Only)

Statement of Activities

Year ended December 31, 2011

(With summarized comparative financial information for
the year ended December 31, 2010)

	Operating funds		Loan funds		2011	2010
	Unrestricted	Temporarily restricted	Unrestricted	Temporarily restricted	Total	Total
Support and revenues:						
Contributions	\$ 634,493	50,073,511	—	3,750,000	54,458,004	40,771,876
Government grants and contracts (note 5)	2,740,618	25,179,896	—	14,759,441	42,679,955	25,953,709
Interest income on investments	1,621,598	—	—	168,155	1,789,753	1,780,496
Interest income on loans to CDPs (note 6)	7,661,956	—	—	—	7,661,956	9,574,219
Other income	3,984,249	—	—	—	3,984,249	3,413,758
Equity in earnings of affiliates (notes 1, 14, and 15)	27,338,230	—	—	—	27,338,230	19,705,135
Net assets released from restrictions and reclassifications	74,693,590	(77,667,323)	—	2,973,733	—	—
Total support and revenues	118,674,734	(2,413,916)	—	21,651,329	137,912,147	101,199,193
Expenses:						
Program services:						
Project development and other program activities	40,743,685	—	—	—	40,743,685	38,431,863
Project grants (note 7)	37,783,384	—	—	—	37,783,384	39,857,999
Project loans:						
Interest on loans and bonds payable	6,048,808	—	—	—	6,048,808	6,925,543
Increase in allowance for uncollectible loans to CDPs (note 6)	5,199,280	—	2,865,302	—	8,064,582	1,023,431
Provision for uncollectible recoverable grants to CDPs	862,677	—	—	—	862,677	914,428
Total program services	90,637,834	—	2,865,302	—	93,503,136	87,153,264
Supporting services:						
Management and general	10,850,696	—	—	—	10,850,696	12,702,828
Fund-raising	6,830,370	—	—	—	6,830,370	6,294,554
Total supporting services	17,681,066	—	—	—	17,681,066	18,997,382
Total expenses	108,318,900	—	2,865,302	—	111,184,202	106,150,646
Change in net assets before realized and unrealized (loss) gain on investments	10,355,834	(2,413,916)	(2,865,302)	21,651,329	26,727,945	(4,951,453)
Realized and unrealized (loss) gain on investments	(2,102,283)	—	—	35,724	(2,066,559)	3,887,371
Change in net assets	8,253,551	(2,413,916)	(2,865,302)	21,687,053	24,661,386	(1,064,082)
Net assets (deficit), beginning of year (note 1)	80,828,577	74,958,205	(12,776,123)	28,206,982	171,217,641	172,281,723
Net assets (deficit), end of year	\$ 89,082,128	72,544,289	(15,641,425)	49,894,035	195,879,027	171,217,641

See accompanying notes to financial statements.

LOCAL INITIATIVES SUPPORT CORPORATION
(Parent Only)

Statement of Cash Flows

Year ended December 31, 2011
(With summarized comparative financial information for
the year ended December 31, 2010)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ 24,661,386	(1,064,082)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Equity in earnings of affiliates	(27,338,230)	(19,705,135)
Distributions from investments in affiliates	13,394,189	14,026,349
Write-down of investment in affiliates	534,047	520,557
Realized and unrealized loss (gain) on investments	2,066,559	(3,887,371)
Depreciation and amortization	388,537	424,454
Increase in allowance for uncollectible loans to CDPs	8,064,582	1,023,431
Provision for uncollectible recoverable grants to CDPs	862,677	914,428
Change in operating assets and liabilities:		
Accrued interest receivable	682,231	325,616
Contributions receivable	13,256,203	11,236,079
Government contracts receivable	(1,978,363)	(1,357,031)
Other assets	1,714,636	(103,796)
Due from affiliates	45,764	75,131
Prepaid expenses and deposits	192,014	714,923
Accounts payable and accrued expenses	(578,134)	(1,792,635)
Grants payable	(374,211)	2,832,099
Net cash provided by operating activities	<u>35,593,887</u>	<u>4,183,017</u>
Cash flows from investing activities:		
Purchase of investments	(87,244,697)	(63,736,072)
Proceeds from sale and maturities of investments	101,307,780	70,023,517
Return of capital on investments in affiliates	835,328	745,787
(Increase) decrease in due from investment manager	(6,338,790)	926,913
Purchase of fixed assets	(458,658)	(138,190)
Recoverable grants made to CDPs	(2,305,410)	(2,949,768)
Repayments received on recoverable grants to CDPs	2,706,241	2,442,120
Loans to CDPs and affiliates projects	(54,964,942)	(34,049,221)
Repayments received on loans to CDPs and affiliates projects	56,378,351	75,897,884
Increase in investment in affiliates	(1,215,594)	—
Net cash provided by investing activities	<u>8,699,609</u>	<u>49,162,970</u>
Cash flows from financing activities:		
Proceeds from loans payable	32,683,500	20,631,333
Repayments of loans and bonds payable	(32,375,213)	(72,620,721)
Net cash provided by (used in) financing activities	<u>308,287</u>	<u>(51,989,388)</u>
Net increase in cash and cash equivalents	44,601,783	1,356,599
Cash and cash equivalents, beginning of year	19,775,089	18,418,490
Cash and cash equivalents, end of year	<u>\$ 64,376,872</u>	<u>19,775,089</u>
Cash paid during the year for:		
Interest on indebtedness	\$ 5,855,130	8,019,242
Supplemental disclosures on noncash investing activities:		
Foreclosed properties in lieu of loan repayments:		
Transferred to affiliate	\$ 846,971	2,162,805
Other assets	—	1,367,289

See accompanying notes to financial statements.

LOCAL INITIATIVES SUPPORT CORPORATION

(Parent Only)

Notes to Financial Statements

December 31, 2011

(With summarized comparative financial information
as of and for the year ended December 31, 2010)**(1) Organization and Summary of Significant Accounting Policies****(a) Corporate Purposes**

Local Initiatives Support Corporation (LISC or the Organization), a New York not-for-profit corporation, was incorporated in 1979 to assist local community organizations throughout the United States in their efforts to transform distressed neighborhoods into healthy communities by marshaling private and public sector resources, extending financial assistance in the form of loans, lines of credit, grants, and loan guarantees, and providing technical support.

(b) Basis of Accounting

The accompanying financial statements include the assets, liabilities, revenues, and expenses of LISC parent only and were prepared for the purpose of reporting under the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Divergence in practice exists with respect to how not-for-profit entities present their interest in controlled affiliates in the absence of stock ownership. As a result, it is not uncommon for entities to exclude their interest in controlled affiliates from parent only financial statements. An entity is permitted to include its interest in net assets of its controlled affiliates in its parent only financial statements, but it is not required. In 2011, in reconsidering its significant accounting policies, LISC determined that it is preferable to include its interest in net assets of controlled affiliates as it better reflects the operations and financial position of LISC. Previously, such interest in net assets of controlled affiliates was excluded. LISC's controlled affiliates consist of National Equity Fund, Inc. (NEF), Local Initiatives Managed Assets Corporation (LIMAC), The Retail Initiative, Inc. (TRI), New Markets Support Company, LLC (NMSC), Columbia Pointe, LLC, LISC Louisiana Loan Fund, LLC (LLLF), Neighborhood Properties, LLC, (NP, LLC), and LISC Cook County, LLC. All statement of activity interaffiliate transactions have been eliminated.

LISC applied this change in accounting retrospectively, which resulted in an increase in net assets as of December 31, 2009 of \$25,648,195 and an increase in the change in net assets for the year ended December 31, 2010 of \$5,678,786.

(Continued).

LOCAL INITIATIVES SUPPORT CORPORATION
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Notes to Financial Statements

December 31, 2011

(With summarized comparative financial information
as of and for the year ended December 31, 2010)

The following represents the effect of the change in accounting principle on the 2010 financial statements:

	<u>As previously reported</u>	<u>As adjusted</u>
Statement of financial position:		
Beginning net assets	\$ 146,633,528	172,281,723
Ending net assets	139,890,660	171,217,641
Investments in affiliates	—	34,841,015
Due from affiliates	5,384,654	1,870,619
Statement of activities:		
Contributions	52,176,856	40,771,876
Interest income on loans to CDPs	9,596,943	9,574,219
Equity in earnings of affiliates	—	19,705,135

(c) Tax Status

LISC is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (the Code). LISC has been classified as an organization that is not a private foundation and has been designated a “publicly supported” organization of the type described in Sections 170(b)(1)(A)(VI) and 509(a)(1) of the Code.

The Organization recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Income generated from activities unrelated to the Organization’s exempt purpose is subject to tax under Internal Revenue Code Section 511. The Organization did not recognize any unrelated business income tax liability for the years ended December 31, 2011 and 2010.

(d) Financial Statement Presentation

The accompanying financial statements are prepared on the accrual basis of accounting. The Organization reports its financial information in the following categories:

Unrestricted Funds

The unrestricted operating fund is used to record activities supported by resources that have been received without restriction over which management and the board of directors have discretionary control.

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LOCAL INITIATIVES SUPPORT CORPORATION

(Parent Only)

Notes to Financial Statements

December 31, 2011

(With summarized comparative financial information
as of and for the year ended December 31, 2010)

The unrestricted loan fund is used to record loans and bonds payable proceeds provided to the Organization by financial institutions, insurance companies, foundations, and other nonprofits with lender-imposed restrictions that may include making loans to Community Development Projects (CDPs) in certain geographic areas. Principal repayments received on loans provided to CDPs funded from loan funds, as well as the provision for loan losses, are recorded in the loan fund. Impairment losses are charged to the unrestricted operating fund.

Temporary Restricted Funds

The temporary restricted funds are used to record assets received with donor-imposed temporary restrictions. Contributions are recorded as temporarily restricted support if they are received with donor stipulations that limit their use. When a donor's restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Specifically, the temporary restricted loan fund is used to record assets received with donor-imposed temporary restrictions for lending and/or credit enhancement activities. The temporary restricted operating fund is used to record assets received with donor-imposed temporary restrictions for all other activities, excluding lending and/or credit enhancement activities.

(e) Furniture, Equipment, and Leasehold Improvements

Furniture, equipment, and leasehold improvements are stated at cost less accumulated depreciation or amortization, computed using the straight-line method. Furniture and equipment are depreciated over their estimated useful lives of three to five years. Leasehold improvements are amortized over the lease term or the life of the asset, whichever is shorter.

(f) Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and on hand and highly liquid debt instruments that have maturities of three months or less from the date of purchase by the Organization, except for those amounts held by the Organization's investment managers.

(g) Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value in the statement of financial position. Fair value of such equity securities is based on quoted market prices. Fair values of fixed maturity securities are based on prices provided by the Organization's custodian banks. The custodian banks use a variety of pricing sources to determine market valuations. Each designates specific pricing services or indexes for each sector of the market upon the provider's expertise. The fair values of alternative investments, as a practical expedient, are based on the net asset value provided by the investment managers or general

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LOCAL INITIATIVES SUPPORT CORPORATION
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Notes to Financial Statements

December 31, 2011

(With summarized comparative financial information
as of and for the year ended December 31, 2010)

partners. Those estimated net asset values may differ significantly from the values that would have been used had a ready market for these securities existed.

(h) Contributions

Contributions, including unconditional promises to give (pledges), are reported as revenue at the date the contribution is received or pledged. Contributions are recorded as temporarily restricted support if they are received with donor stipulations that limit their use. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions receivable, less an allowance for uncollectible amounts, are reported at their net present value. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions.

Contributed goods are recognized as revenue at their estimated fair value at date of receipt and expensed when used. Contributed services are recognized as revenue if the services create or enhance nonfinancial assets or require a specialized skill, are provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. Contributed services that do not meet the above criteria are not recognized as revenues and are not reported in the accompanying financial statements.

(i) Risks and Uncertainties

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

(j) Fair Value

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

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LOCAL INITIATIVES SUPPORT CORPORATION
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Notes to Financial Statements

December 31, 2011

(With summarized comparative financial information
as of and for the year ended December 31, 2010)

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate fair value of the Organization's interest therein, its classification in Level 2 or 3 is based on the Organization's ability to redeem its interest at or near December 31. If the interest can be redeemed in the near term, the investment is classified as Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

(k) Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The significant estimates made in the preparation of these financial statements include the fair value of alternative investments, the fair value of derivatives, the allowance for uncollectible loans, the allowance for uncollectible recoverable grants, the allowance for uncollectible contributions receivable, and the valuation of guarantees. Actual results could differ from those estimates.

(l) Allowance for Uncollectible Loans

The allowance for uncollectible loans is maintained at a level that, in management's judgment, is adequate to provide for potential losses. The amount of the allowance is based on management's evaluation of the collectibility of the loans. Large loans are evaluated individually for impairment and an allowance for impairment is established using the methodology under Accounting Standards Codification (ASC) 310, *Accounting by Creditors for Impairment of a Loan*. An allowance is established when the discounted cash flows of an impaired loan are lower than the carrying value of the loan. For the remainder of the portfolio, an allowance is established based on historical loan loss experience and management's evaluation of the collectibility of the loans, taking into consideration project characteristics and trends.

(m) Recoverable Grants

Recoverable grants are amounts provided to CDPs that contractually require repayment without interest. Recoverable grants receivable are recorded when these amounts are disbursed and an allowance has been established based on historical recoverability experience that, in management's judgment, is adequate to cover potential losses.

(n) Comparative Financial Information

The accompanying statement of activities is presented with prior year summarized financial information in total, but not by net asset class. Such information does not include sufficient detail to constitute a complete presentation; accordingly, such information should be read in conjunction with

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LOCAL INITIATIVES SUPPORT CORPORATION
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Notes to Financial Statements

December 31, 2011

(With summarized comparative financial information
as of and for the year ended December 31, 2010)

the Organization's December 31, 2010 financial statements, from which the summarized information was derived.

(o) Reclassifications

Certain reclassifications have been made to the 2010 comparative information to conform to the current year presentation.

(2) Temporarily Restricted Net Assets

Temporarily restricted net assets, which are restricted for the Organization's twenty-eight local/regional offices, rural program, and several other national programs, are to be used in future years for program services such as project grants and recoverable grants to CDPs, sustainable communities program, and operating support to CDPs and local offices. As of December 31, 2011, temporarily restricted net assets were \$122,438,324 (\$72,544,289 temporarily restricted operating funds and \$49,894,035 temporarily restricted loan funds) and included the following components: (1) *Sustainable Communities Strategy* – The sustainable communities strategy includes five program objectives; developing, preserving, and investing in the physical environment; increasing family income and wealth; stimulating economic activity, locally and regionally; improving access to quality education; and fostering livable, safe, and healthy environments. The building sustainable communities objectives are integral to all of the Organization's programs. Approximately \$19 million of donor-restricted funds are specifically available for the implementation of LISC's building sustainable communities strategy (of which \$4 million is specifically allocated to the Chicago local area program); (2) *Educational Facilities Financing Center* – approximately \$47.4 million of donor-restricted funds available to support quality public charter and alternative schools in low-income neighborhoods. Included in the amount is approximately \$43.5 million in temporarily restricted loan funds (\$39.8 million related to grants awarded by the U.S. Department of Education to LISC to provide credit enhancement on loans made by financial institutions to stimulate the financing of charter schools and \$3.7 related to lending activities); (3) *Specific Project Funds* – approximately \$30.5 million of donor-restricted funds available to support a multitude of specifically defined projects in the local/regional offices and national programs; and (4) *General operating and programmatic support* – approximately \$25.5 million of donor-restricted funds that are for use by specific local/regional offices and national programs for both general operating and programmatic support.

(Continued)

LOCAL INITIATIVES SUPPORT CORPORATION

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Notes to Financial Statements

December 31, 2011

(With summarized comparative financial information
as of and for the year ended December 31, 2010)**(3) Cash, Cash Equivalents, and Investments**

At December 31, 2011 and 2010, the Organization's total portfolio of cash, cash equivalents, and investments consisted of the following:

	2011		2010	
	Cost	Fair value	Cost	Fair value
Cash and cash equivalents	\$ 64,376,872	64,376,872	19,775,089	19,775,089
Investments:				
Cash held for investment	21,217,613	21,217,613	23,476,585	23,476,585
Corporate bonds and fixed income funds	32,960,783	30,600,845	36,863,978	35,961,029
U.S. government agencies	44,137,239	44,401,679	42,274,209	42,403,839
Equity securities – domestic	2,396,693	2,535,574	4,689,029	5,048,794
Certificates of deposit	1,925,000	1,925,000	2,250,000	2,250,000
Alternative investments:				
Real estate investment trust	991,536	1,516,480	991,536	1,507,520
Hedge funds	11,139,212	12,752,925	16,470,602	17,570,001
Equity common trust fund	2,343,866	2,586,374	4,042,207	5,448,364
	<u>117,111,942</u>	<u>117,536,490</u>	<u>131,058,146</u>	<u>133,666,132</u>
Total cash, cash equivalents, and investments	\$ <u>181,488,814</u>	<u>181,913,362</u>	<u>150,833,235</u>	<u>153,441,221</u>

The Organization invests in certain alternative investments, through "funds of funds" investments, which employ multiple investment strategies via a variety of investment managers to provide diversification and control risk. These investments create indirect exposure to the Organization through short sales of securities, trading in future and forward contracts, and other derivative products. Derivatives are tools used to maintain asset mix or manage portfolio risk exposure. While these financial instruments may contain varying degrees of risk, the Organization's risk with respect to such transactions is limited to its capital balance in each investment.

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The limitations and restrictions on the Organization's ability to redeem or sell its alternative investments vary by investment. As of December 31, 2011, the following table summarizes the composition of such investments by the various redemption provisions:

	<u>Fair value</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Alternative investments:			
Real estate investment trust (A)	\$ 1,516,480	Lock-up	Not applicable
Multi-strategy hedge funds (B)	11,634,315	Quarterly	61 Calendar days
Credit-focused hedge funds (C)	1,118,610	Lock-up	Not applicable
Equity common trust fund (D)	2,586,374	Monthly	2 Business days
	<u>\$ 16,855,779</u>		

As of December 31, 2011 and 2010, the Organization has no unfunded commitments on its alternative investments.

Information with respect to the strategies of those investment funds which are reported at estimated fair value based upon net asset value per share (or its equivalent) is as follows (amounts included are as of December 31, 2011):

- (A) *Real estate investments trust* (\$1,516,480) – of which the Organization is a minority shareholder, principal business activities are to invest in affordable multifamily residential mortgage loans, which are subsequently syndicated to institutional investors, and to acquire equity interests in affordable multifamily residential real estate assets.
- (B) *Multi-strategy hedge funds* (\$11,634,315) – includes investments in fund of funds that invest across multiple hedge fund strategies and styles, including equity long/short, event driven, relative value, tactical trading, and multi-strategy hedge funds styles.
- (C) *Credit-focused hedge funds* (\$1,118,610) – comprised of an investment in a hedge fund that seeks to achieve attractive total returns through both capital appreciation and current income. The fund seeks to achieve its investment objective through a portfolio of investments in publicly traded and privately held securities, loans, derivatives, and other instruments, primarily in the corporate credit sector of the fixed income and related markets.
- (D) *Equity common trust fund* (\$2,586,374) – comprised of an investment in a passively managed common trust fund that seeks to match the return of the MSCI Europe, Australia, and Far East index (the Index). The fund employs an index replication approach to construct a portfolio whose returns closely parallel those of the Index. This process is accomplished through investing in 21 individual MSCI country funds, which, in turn, own the Index securities in market-weighted proportion.

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(4) Contributions Receivable

At December 31, 2011 and 2010, the Organization had contributions receivable with expected receipts as follows:

	<u>2011</u>	<u>2010</u>
Due within one year	\$ 16,515,425	30,776,395
Due in one to five years	7,126,240	6,092,000
	<u>23,641,665</u>	<u>36,868,395</u>
Less discount (0.12% – 5.00%)	(30,470)	(51,997)
Less allowance for uncollectible contributions receivable	<u>(826,000)</u>	<u>(775,000)</u>
Total contributions receivable, net	<u>\$ 22,785,195</u>	<u>36,041,398</u>

At December 31, 2011 and 2010, approximately 12.6% and 28%, respectively, of the Organization's contribution receivable was from one foundation.

(5) Government Grants and Contracts

At December 31, 2011 and 2010, LISC had grant commitments from various government agencies of approximately \$41 million. These grant commitments will be recognized in the accompanying financial statements when it is probable that the conditions surrounding the terms of the grant will be met.

(6) Program Loans and Recoverable Grants to Community Development Projects

(a) Program Loans

In furtherance of its charitable purposes, LISC makes loans directly to CDPs and also to its affiliates, to benefit affiliate projects. In general, interest rates on loans to CDPs range from 0% to 10% and repayment terms range from 4 months to 22.6 years. Delinquent loans, measured as those loans whose payment is 90 days past due, totaled \$11,261,734 and \$11,818,914, respectively, at December 31, 2011 and 2010. The portion of the allowance dedicated to the delinquent loans totaled \$3,234,074 at December 31, 2011 and \$3,184,340 at December 31, 2010. At December 31, 2011, loan principal of \$48,194,349 is due to LISC within one year.

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Loan activity for the years ended December 31, 2011 and 2010 is summarized as follows:

	Loans made directly to CDPs and CDPs- sponsored projects	Loans made to affiliates and NEF- related entities for NEF projects	2011 Total	2010 Total
Gross loans receivable, beginning of year	\$ 153,591,729	417,864	154,009,593	201,911,409
Loans made	48,191,478	6,773,464	54,964,942	34,049,221
Repayments	(49,604,887)	(6,773,464)	(56,378,351)	(75,897,884)
Loans transferred to foreclosed assets	(846,971)	—	(846,971)	(3,530,094)
Loans written off	(4,867,780)	(331,500)	(5,199,280)	(2,523,059)
Gross loans receivable, end of year	<u>146,463,569</u>	<u>86,364</u>	<u>146,549,933</u>	<u>154,009,593</u>
Allowance for uncollectible loans, beginning of year	(12,776,123)	—	(12,776,123)	(14,275,751)
Increase in allowance for uncollectible loans	(8,064,582)	—	(8,064,582)	(1,023,431)
Loans written off	<u>5,199,280</u>	<u>—</u>	<u>5,199,280</u>	<u>2,523,059</u>
Allowance for uncollectible loans, end of year	<u>(15,641,425)</u>	<u>—</u>	<u>(15,641,425)</u>	<u>(12,776,123)</u>
Loans receivable, net, end of year	<u>\$ 130,822,144</u>	<u>86,364</u>	<u>130,908,508</u>	<u>141,233,470</u>

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(b) Recoverable Grants

In furtherance of its charitable purposes, LISC makes recoverable grants directly to CDPs. Recoverable grant activity for 2011 and 2010 is summarized as follows:

	<u>2011</u>	<u>2010</u>
Gross recoverable grants receivable, beginning of year	\$ 14,591,401	14,301,559
New recoverable grants made	2,305,410	2,949,768
Write-offs	(937,587)	(217,806)
Repayments	<u>(2,706,241)</u>	<u>(2,442,120)</u>
Gross recoverable grants receivable, end of year	13,252,983	14,591,401
Allowance for uncollectible recoverable grants, end of year	<u>(6,415,891)</u>	<u>(6,490,801)</u>
Recoverable grants receivable, net, end of year	<u>\$ 6,837,092</u>	<u>8,100,600</u>

(7) Grants Payable

In furtherance of its charitable purposes, LISC makes grants to CDPs. The Organization's grant activity for the years ended December 31, 2011 and 2010 is summarized below:

	<u>2011</u>	<u>2010</u>
Grants payable, beginning of year	\$ 23,266,398	20,434,299
New project grants made	37,783,384	39,857,999
Disbursements on commitments	<u>(38,157,595)</u>	<u>(37,025,900)</u>
Grants payable, end of year	<u>\$ 22,892,187</u>	<u>23,266,398</u>

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(8) Furniture, Equipment, and Leasehold Improvements

Furniture, equipment, and leasehold improvements consisted of the following at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Equipment	\$ 503,108	144,778
Furniture	127,492	127,492
Leasehold improvements	<u>4,114,261</u>	<u>4,123,326</u>
Gross fixed assets	4,744,861	4,395,596
Less accumulated depreciation and amortization	<u>(2,106,406)</u>	<u>(1,827,262)</u>
Furniture, equipment, and leasehold improvements, net	<u><u>\$ 2,638,455</u></u>	<u><u>2,568,334</u></u>

(9) Loans Payable

At December 31, 2011 and 2010, loans payable consisted of the following:

	<u>Maturities</u>	<u>Interest rates</u>	<u>2011</u>	<u>2010</u>
Financial institutions and insurance companies	2012 – 2025	0.00% – 5.55%	\$ 155,253,200	155,713,456
Foundations	2012 – 2026	0.00% – 4.50%	23,046,412	21,437,810
Public agencies/entities and retirement funds	2013 – 2026	0.00% – 4.00%	8,601,103	8,830,204
Nonprofit and other institutions	2012 – 2025	0.00% – 4.30%	<u>9,794,740</u>	<u>10,405,698</u>
Total			<u><u>\$ 196,695,455</u></u>	<u><u>196,387,168</u></u>

(a) Loans Payable Maturities

Loans payable are scheduled to be repaid as of December 31, 2011 as follows:

2012	\$ 34,755,040
2013	25,334,062
2014	33,471,896
2015	22,827,690
2016	25,662,154
Thereafter	<u>54,644,613</u>
	<u><u>\$ 196,695,455</u></u>

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At December 31, 2011, LISC had approximately \$104,324,000 of additional undrawn sources of funding with interest rates ranging from 0% to 5.5% fixed rate and floating rate of LIBOR+3.00%, and maturities ranging from 2012 to 2015.

(b) Pledged Assets

At December 31, 2011 and 2010, loans payable totaling \$13,405,307 and \$13,709,012, respectively, were nonrecourse obligations. In accordance with the terms of the nonrecourse loan agreements, underlying loans receivable are pledged as collateral to the lenders.

(c) Lines of Credit

On February 1, 2012, LISC had available bank lines of credit of \$25,000,000 until February 1, 2013. The interest rate is LIBOR+1.75%.

(d) Covenants

In accordance with the terms of the master loan and grant agreements between LISC and a consortium of lenders/grantors (Living Cities), LISC is required to meet several financial covenants.

Such covenants include: (i) indebtedness for borrowed money minus nonrecourse indebtedness cannot exceed 450% of covenant net assets, as defined, for each fiscal quarter ending March 31, June 30, and September 30; and 350% of covenant net assets for each fiscal year ending December 31; (ii) covenant net assets cannot be less than 30% of loans nor less than 15% of assets; and (iii) cash and marketable securities plus 50% of loans receivable due during the current period cannot be less than debt due during the current period. At the end of any year, LISC is required to have unrestricted and temporarily restricted cash plus investments as of the end of the fiscal year equal to at least six months of total budgeted expenses, as defined, for the subsequent fiscal year.

Certain additional loan covenants of a less restrictive nature than those disclosed above exist as of December 31, 2011.

LISC is in compliance with all its covenants described above at December 31, 2011.

(10) Pension and Thrift Plans

LISC has a Code Section 403(b) defined contribution pension plan covering all eligible employees. Plan contributions are computed based on formulas defined in the plan. Total pension expense for the years ended December 31, 2011 and 2010 was \$1,892,627 and \$1,849,215, respectively.

LISC also maintains a thrift plan under Section 401(k) of the Code covering all eligible employees. Under the plan, employee contributions are partially matched by LISC. Total thrift plan expense for the years ended December 31, 2011 and 2010 was \$316,393 and \$313,239, respectively.

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(11) Financial Instruments with off-Balance-Sheet Risk and Fair Values

(a) Off-Balance-Sheet Risk

LISC is a party to certain financial instruments with off-balance-sheet risk to meet the financing needs of community development organizations across the United States. These financial instruments and arrangements include loans receivable sold with recourse, financial guarantees, and revolving loans. These transactions and arrangements involve elements of credit risk. LISC uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

LISC's exposure to credit loss in the event of nonperformance of LISC loans have been guaranteed or sold with recourse is equal to the contractual amounts of the instruments.

Revolving loans are agreements to lend as long as there is no violation of any condition established in the contract.

The following represents the composition of financial instruments with off-balance-sheet risk:

	2011 Contract amount	2010 Contract amount
Financial instruments whose contract amounts represent credit risk:		
Financial guarantees	\$ 9,400,214	7,494,741
Loan commitments outstanding	46,480,565	35,639,927
Loans receivable sold with recourse	3,460	43,126
Total	<u>\$ 55,884,239</u>	<u>43,177,794</u>

LISC generally makes loans over \$50,000 on a secured basis. The collateral for such loans generally consists of mortgages, security agreements, assignment of contract receivables, and guarantees. As of December 31, 2011, financial guarantees of \$9,400,214 had a fair value of \$498,663. In addition, LISC has commitments to extend guarantees of up to \$2,503,440 once certain conditions have been satisfied.

At December 31, 2011 and 2010, LISC had interest rate swap agreements with notional amounts aggregating \$20,800,000. The fair value and change in fair value of such interest rate swaps for the year ended December 31, 2011 and 2010 were immaterial to the financial statements.

(b) Fair Values

The following methods and assumptions were used by LISC in estimating its fair value disclosure for financial instruments: for cash, cash equivalents, loans to CDPs, contributions receivable, accounts

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payable and accrued expenses, and loans payable, the respective carrying amounts reported in the statement of financial position equal or approximate their fair value based on their short term nature. For a discussion of valuations of investments, see note 1(g).

The following tables present the Organization's fair value hierarchy for those assets and liabilities measured at fair value on an annual basis as of December 31, 2011 and 2010:

	Total December 31, 2011	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	\$ 64,376,872	64,376,872	—	—
Investments:				
Cash held for investment	\$ 21,217,613	21,217,613	—	—
Corporate bonds and fixed income funds	30,600,845	27,473,181	3,127,664	—
U.S. government agencies	44,401,679	27,010,151	17,391,528	—
Equity securities – domestic	2,535,574	2,535,574	—	—
Certificates of deposit	1,925,000	—	1,925,000	—
Alternative investments:				
Real estate investment trust	1,516,480	—	—	1,516,480
Hedge funds	12,752,925	—	11,634,315	1,118,610
Equity common trust funds	2,586,374	—	2,586,374	—
Total investments	<u>\$ 117,536,490</u>	<u>78,236,519</u>	<u>36,664,881</u>	<u>2,635,090</u>
Interest rate swaps	\$ (128,194)	—	(128,194)	—
Loan guarantee	498,663	—	498,663	—

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	Total December 31, 2010	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	\$ 19,775,089	19,775,089	—	—
Investments:				
Cash held for investment	\$ 23,476,585	23,476,585	—	—
Corporate bonds and fixed income funds	35,961,029	31,668,014	4,108,279	184,736
U.S. government agencies	42,403,839	25,236,326	17,167,513	—
Equity securities – domestic	5,048,794	5,048,794	—	—
Certificates of deposit	2,250,000	—	2,250,000	—
Alternative investments:				
Real estate investment trust	1,507,520	—	—	1,507,520
Hedge funds	17,570,001	—	14,064,687	3,505,314
Equity common trust funds	5,448,364	—	5,448,364	—
Total investments	<u>\$ 133,666,132</u>	<u>85,429,719</u>	<u>43,038,843</u>	<u>5,197,570</u>
Interest rate swaps	\$ (138,614)	—	(138,614)	—
Loan guarantee	498,663	—	498,663	—

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The following tables present a reconciliation for all Level 3 assets measured at fair value for the years ended December 31, 2011 and 2010:

	<u>Corporate bonds and fixed income</u>	<u>Real estate investment trust</u>	<u>Hedge funds</u>	<u>Total</u>
Beginning balance, January 1, 2011	\$ 184,736	1,507,520	3,505,314	5,197,570
Total unrealized (losses) gains included in changes in net assets, net	—	8,960	(83,931)	(74,971)
Transfers to Level 2	(184,736)	—	(4,871,383)	(5,056,119)
Redemptions	—	—	—	—
Purchases	—	—	2,568,610	2,568,610
Ending balance, December 31, 2011	<u>\$ —</u>	<u>1,516,480</u>	<u>1,118,610</u>	<u>2,635,090</u>

	<u>Corporate bonds and fixed income</u>	<u>Real estate investment trust</u>	<u>Hedge funds</u>	<u>Total</u>
Beginning balance, January 1, 2010	\$ 235,302	1,507,520	—	1,742,822
Total unrealized (losses) gains included in changes in net assets, net	(34,975)	—	255,314	220,339
Redemptions	(15,591)	—	—	(15,591)
Purchases	—	—	3,250,000	3,250,000
Ending balance, December 31, 2010	<u>\$ 184,736</u>	<u>1,507,520</u>	<u>3,505,314</u>	<u>5,197,570</u>

(12) Concentration of Credit Risk

LISC makes grants and loans to local community organizations throughout the United States that are primarily engaged in residential and commercial real estate development. Although LISC's portfolio is diversified as to location of borrower, the ability of local community organizations to repay their obligations on a timely basis may be affected by the continuing downturn in the economy, a cutback in government subsidies, or the availability of other permanent financing sources, which may limit the capital available to complete projects.

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In the ordinary course of its activities, LISC is a party to several legal proceedings. In the opinion of management and legal counsel, the resolution of such matters will not have a material impact on LISC's operations or financial condition.

(b) Lease Commitments

Minimum rental commitments under noncancelable operating real estate leases in effect at December 31, 2011 and expiring at various dates through August 19, 2019 totaled \$23,531,124. These amounts exclude future escalation for real estate taxes and building operating expenses. Minimum future rental commitments as of December 31, 2011 are as follows:

2012	\$	3,579,725
2013		3,314,957
2014		3,072,745
2015		2,954,361
2016		2,930,470
Thereafter		<u>7,678,866</u>
Total	\$	<u>23,531,124</u>

Rental expense, inclusive of real estate taxes and operating costs, for the years ended December 31, 2011 and 2010 totaled \$3,714,842 and \$3,472,546, respectively.

In 2009, LISC entered into a lease agreement for office space expiring August 19, 2019. In connection with the lease agreement, LISC received certain periods of free rent and other rent concessions. LISC records the lease expense on a straight-line basis. At December 31, 2011 and 2010, accounts payable and accrued expenses include \$3,348,270 and \$3,546,864, respectively, of deferred rent obligations related to the lease. In connection with the lease agreement, LISC issued a letter of credit in the amount \$750,000 on September 30, 2010 with an expiration date of November 30, 2011. The letter of credit was renewed on October 19, 2011, with an expiration date of November 30, 2012. A certificate of deposit in the amount of \$750,000 is being used as collateral for the letter of credit.

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(14) Related-Party Transactions

Investments in Affiliates

Investments in affiliates consist of the following:

<u>Affiliates</u>	<u>2011 Net assets/ members' equity</u>	<u>2010 Net assets/ members' equity</u>
NEF	\$ 38,248,500	24,661,106
NMSC	6,759,857	6,484,196
TRI	197,467	193,435
NP, LLC	4,306,479	3,514,112
LLLF	24,473	(45,289)
LISC Cook County, LLC	(57,482)	(24,771)
Columbia Pointe, LLC	—	58,677
LIMAC	(1,048)	(451)
	<u>\$ 49,478,246</u>	<u>34,841,015</u>

NEF includes accumulated deficits of \$(11,749,614) and \$(22,070,281) in 2011 and 2010, respectively, related primarily to NEF's affiliates referred to as Community Development Advocates (CDA).

During 2011, LISC made additional capital investments of \$2,062,565, redeemed \$835,328 of its capital investment, and recorded an impairment loss of \$534,047 related to NP, LLC. As of December 31, 2010, LISC has made capital investments of \$3,514,112 in NP, LLC.

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The following presents the summary of net income/change in net assets of affiliates, interaffiliate eliminations and other adjustments, and equity in earnings of affiliates:

Affiliates	2011			2010		
	Net income/ change in net assets of affiliates	Interaffiliate elimination and other adjustments (note 15)	LISC's equity in earnings of affiliates	Net income/ change in net assets of affiliates	Interaffiliate elimination and other adjustments (note 15)	LISC's equity in earnings of affiliates
NEF	\$ 13,587,394	9,985,878	23,573,272	4,606,663	10,374,031	14,980,694
NMSC	275,661	3,500,000	3,775,661	616,811	3,500,000	4,116,811
TRI	4,032	30,000	34,032	46,516	30,000	76,516
NP, LLC	99,177	(171,847)	(72,670)	322,851	—	322,851
LLLF	69,762	14,334	84,096	15,611	14,998	30,609
LISC Cook County, LLC	(32,711)	35,750	3,039	(28,275)	32,340	4,065
Columbia Pointe, LLC	(58,677)	—	(58,677)	99,950	—	99,950
LIMAC	(597)	74	(523)	(1,341)	74,980	73,639
	<u>\$ 13,944,041</u>	<u>13,394,189</u>	<u>27,338,230</u>	<u>5,678,786</u>	<u>14,026,349</u>	<u>19,705,135</u>

(15) Related-Party Income Distributions

LISC provides various services to its affiliates. LISC earns a service fee from NEF for providing project-related services, which include project selection assistance, assistance to project partnerships, and closing and monitoring of project investments. LISC also earns fee income from NEF for services provided by LISC related mainly to NEF's New York operations. LISC also provides office space to NEF. NEF is charged a pro rata share of the monthly lease costs, inclusive of operation costs and real estate tax escalations. In addition, LISC earns a management fee for technical and management assistance provided to TRI, LIMAC, and LLLF. Furthermore, certain shared expenses are reimbursed to LISC pursuant to an allocation agreement between parties. In 2011, LISC provided NP, LLC with a \$300,000 operating grant.

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The following represents distributions from related parties at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
NEF service fee	\$ 1,835,000	1,775,000
NEF fee income	78,742	577,273
NEF consulting fee income	—	50,000
NEF line of credit fee	62,500	125,000
NEF grant	7,952,583	7,830,000
NEF interest income	57,053	16,758
NMSC grant	3,500,000	3,500,000
NP, LLC management fee	128,153	—
LISC's grant to Neighborhood Property, LLC	(300,000)	—
TRI management fee	30,000	30,000
LISC Cook County, LLC management fee	35,750	32,340
LLLF management fee	8,504	9,032
LLLF interest income	5,830	5,966
LIMAC grant	—	74,980
LIMAC management fee	74	—
Total	<u>\$ 13,394,189</u>	<u>14,026,349</u>

(a) Due from Affiliates

Due from affiliates consisted of the following at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
NEF	\$ 1,546,060	1,664,472
LIMAC	4,387	4,096
NMSC	13,182	9,606
TRI	8,163	7,645
LLLF, net of reserve of \$128,634	173,115	151,318
Columbia Pointe, LLC	—	1,077
LISC Cook County, LLC	68,479	32,405
NP, LLC	11,469	—
Total	<u>\$ 1,824,855</u>	<u>1,870,619</u>

(b) Other Related-Party Activities

LISC provides NEF and NEF-related entities a \$15,000,000 revolving line of credit to borrow monies to provide short-term secured loans to facilitate the acquisitions of project partnership investments. The maturity date is December 31, 2012. At December 31, 2011 and 2010, there was \$0

(Continued)

LOCAL INITIATIVES SUPPORT CORPORATION
(Parent Only)

Notes to Financial Statements

December 31, 2011

(With summarized comparative financial information
as of and for the year ended December 31, 2010)

outstanding on the revolving line of credit. At December 31, 2011 and 2010, LISC earned interest of \$57,053 and \$16,758, respectively, in interest income on the revolving line of credit. The loans are secured by assignments of investor notes and/or interests in project investments. LISC also provides a \$5 million working capital line of credit with a maturity date of December 31, 2012. There was no outstanding balance as of December 31, 2011 and 2010.

In November 2007, LISC provided LLLF a \$1 million revolving bridge loan, maturing on December 1, 2012. The proceeds of the loan are to be used only to bridge advances of loans secured by LLLF to fund acquisition and predevelopment loans to developers in the Gulf Opportunity Zone in the State of Louisiana for the rehabilitation and development of affordable and mixed-income housing. At December 31, 2011 and 2010, there were no outstanding amounts for this loan.

In 2008, LISC has also provided LLLF a \$750,000, 6.75% interest-bearing revolving facility to fund project loans. The full amount of unpaid principal and all accrued and unpaid interest is due on the earlier to occur of (i) repayment of the final project loan or (ii) December 1, 2012. As of December 31, 2011 and 2010, \$86,364 was payable to LISC under this facility.

In May 2006, LISC provided Columbia Pointe, LLC a \$500,000 loan for the acquisition of a 25% interest in Woodlawn Park, LLC, an Illinois limited liability company, which is developing affordable housing in Chicago. The loan matured on June 1, 2011, and LISC wrote off the \$331,500 outstanding balance.

In December 2011, LISC recovered \$225,000 from TRI for a \$5,665,114 recoverable grant written off by LISC in 2003.

LISC provided a \$7,500,000, 0% recoverable grant facility to LLLF to fund project loans. LLLF has to repay LISC all LISC recoverable grant funds disbursed to LLLF within 60 days from the maturity date of the facility (November 20, 2012). In the event that LISC is satisfied, however, that LLLF has made best efforts to seek recovery of a project loan, and if LISC and LLLF shall have mutually agreed in writing that a completed project cannot generate sufficient revenue to repay any portion of such project loan funded with the proceeds of the recoverable grant, repayment of the portion of the recoverable grant that is unable to be repaid may not be required. As of December 31, 2011 and 2010, \$918,358 was outstanding for this recoverable grant and is included in recoverable grants to CDPs. As of December 31, 2011, LLLF had received \$85,025 in repayments on one of the project loans provided from the underlying recoverable grant.

(Continued)

LOCAL INITIATIVES SUPPORT CORPORATION
(Parent Only)

Notes to Financial Statements

December 31, 2011

(With summarized comparative financial information
as of and for the year ended December 31, 2010)

In 2011, LISC provided financial guarantees of certain obligations of LLLF. As of December 31, 2011, the guarantees totaled \$570,252.

(16) Subsequent Events

In connection with the preparation of the financial statements and in accordance with ASC Subtopic 855-10, *Subsequent Events*, the Organization evaluated subsequent events after the balance sheet date of December 31, 2011 through September 25, 2012, which was the date the financial statements were available to be issued and determined that there were no matters that are required to be disclosed.

LOCAL INITIATIVES SUPPORT CORPORATION
(Parent Only)

Schedule of Expenditures of Federal Awards

Year ended December 31, 2011

Grantor/program title	CFDA number	Contract number	Federal expenditures
U.S. Department of Housing and Urban Development (HUD):			
Community Development Block Grants/Entitlement Grants:			
Direct	14.218	B-08-NI-KS-0030	\$ 410,958
Pass through:			
City of Chicago – DFSS	14.218	20911	(35,127)
City of Chicago – DFSS	14.218	23221	140,638
City of Chicago – Faith	14.218	15798 – 1	311,186
City of Hartford	14.218	101600	38,121
City of Hartford	14.218	111600	37,883
City of Indianapolis	14.218	P010300757	73,951
City of Indianapolis	14.218	P019300609	4,546
City of Indianapolis	14.218	P010300569	12,472
City of Indianapolis	14.218	P010300571	11,633
City of Indianapolis	14.218	P010300570	14,488
City of Indianapolis	14.218	P011300236	16,166
City of Indianapolis	14.218	P011300244	73,251
City of Indianapolis	14.218	P011300235	11,006
City of Kalamazoo	14.218	N/A	96
City of Kalamazoo	14.218	N/A	17,450
City of Newark	14.218	N/A	179,298
City of Philadelphia	14.218	1020507	55,845
City of Philadelphia	14.218	1020368a	904
City of Philadelphia	14.218	1120541	18,517
City of Phoenix	14.218	121455	50,339
City of Providence	14.218	N/A	75,000
City of Providence	14.218	699-37LLL	15,000
City of Richmond	14.218	4617-2159-8523	1,846
City of San Diego	14.218	N/A	(2,541)
City of San Diego	14.218	N/A	6,157
City of San Diego	14.218	N/A	1,650
City of Toledo	14.218	4600001103	40,462
State of Louisiana	14.218	107 – 700941	114,364
			<u>1,695,559</u>
Section 4 Capacity Building for Community Development and Affordable Housing Program:			
Direct	14.252	Various	11,874,942
Community Development Financial Institutions Program:			
Direct	21.020	Various	262,043
HOME Investment Partnerships Program:			
Direct	14.239	Various	815,373
National Stabilization Program:			
Direct – American Recovery and Reinvestment Act (ARRA)	14.256	N/A	1,590,173
Pass through:			
City of Jacksonville – ARRA	14.256	HNHS1A3HPAD/04938	8,982
			<u>1,599,155</u>
Total HUD			<u>16,247,072</u>
Corporation for National and Community Service (CNCS):			
AmeriCorps – Direct	94.006	09-NDH-NY-002	1,786,018
Social Innovation Fund – Direct	94.019	10-SIH-NY-001	4,040,623
Total CNCS			<u>5,826,641</u>
Department of Family and Support Services:			
Pass through:			
City of Chicago – Workforce Initiative Act (WIA) Stimulus			
Summer Youth Employment – ARRA	17.259	19817 – 74174	(283)

(Continued)

LOCAL INITIATIVES SUPPORT CORPORATION
(Parent Only)

Schedule of Expenditures of Federal Awards

Year ended December 31, 2011

<u>Grantor/program title</u>	<u>CFDA number</u>	<u>Contract number</u>	<u>Federal expenditures</u>
U.S. Department of Justice:			
Executive Office for Weed and Seed:			
Community Security Initiative – Direct	16.595	Various	\$ 620,340
Community Security Initiative – Direct	16.736	Various	306,020
			<u>926,360</u>
U.S. Department of Health and Human Services:			
Direct:			
Child Care & Development	93.575	Various	487,199
U.S. Department of Commerce:			
Pass through:			
Chicago Community Foundation	11.557	17-43-810507	3,037,986
U.S. Department of Agriculture (USDA):			
Rural Community Development Initiative:			
USDA/Rural Housing Services – Direct	10.761	Various	276,917
U.S. Small Business Administration:			
Microenterprises Development Branch – Direct	59.050	SBAHQ – 09 – Y – 0146	33,648
U.S. Department of Education (DOE):			
Credit Enhancement for Charter School Facilities – Direct (note 3)	84.354	N/A	39,796,765
Pass through:			
Illinois State University	84.366	U336S090145	27,710
Total expenditures of federal awards			<u>\$ 66,660,015</u>

See accompanying notes to schedule of expenditures of federal awards.

LOCAL INITIATIVES SUPPORT CORPORATION

(Parent Only)

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2011

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Local Initiatives Support Corporation (Parent Only) (the Organization) and is presented on the accrual basis. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the Organization's 2011 basic financial statements.

(2) Subrecipients

Of the federal expenditures presented in the schedule, the Organization provided federal awards to subrecipients as follows:

Program title	CFDA number	Amount provided to subrecipients
Community Development Block Grants/Entitlement Grants	14.218	\$ 677,270
Community Development Block Grants/Section IV	14.252	7,267,762
HOME Investment Partnerships Program	14.239	56,111
Social Innovation Fund	94.019	3,452,750
Community Security Initiative	16.595	351,706
Chicago Community Foundation	11.557	999,311
Child Care & Development Block Grant	93.575	131,678
Rural Housing Services	10.761	207,848
US Small Business Administration	59.050	20,100
		<u>\$ 13,164,536</u>

(3) Credit Enhancement for Charter School Facilities

The U.S. Department of Education has awarded total grants of \$36,446,372 to the Organization to credit enhance the loans made by financial institutions to stimulate the financing of charter schools. The grant funds are to remain invested in separate grant reserve accounts in accordance with the requirements of the grant. Such financial assistance is considered federal awards expended based on the amounts in the reserve accounts at the beginning of the grantee fiscal year; plus any funds drawn down plus investment earnings received in the grantee's fiscal year to add to the reserve account; less any payments resulting from the credit enhancements provided. There have been no withdrawals from the reserve account for losses related to credit enhancements provided. The reserve account balance as of December 31, 2011 is \$39,796,765, consisting of the remaining grant balance of \$36,355,220 and accumulated net investment earnings of \$3,441,545.

LOCAL INITIATIVES SUPPORT CORPORATION
(Parent Only)

Schedule of Indirect Cost Rate

Year ended December 31, 2011

Indirect costs:

Salaries and fringe benefits	\$ 9,808,125
Staff travel and related expenses	422,116
Consulting fees	325,000
Depreciation and amortization	388,537
Rent and utilities	1,219,624
Computer expense	300,990
Office supplies	67,931
Postage and delivery	54,103
Accounting and auditing fees	512,350
Conference and meeting	158,519
Memberships and subscriptions	72,018
Meals	55,223
Telephone	191,996
Insurance	62,319
Equipment rental	68,421
Printing, annual report, and publications	53,949
Contracted overhead	61,611
Repairs and renovations	31,235
Legal fees	148,928
Payroll services	135,172
Office cleaning and maintenance	62,344
Taxes	4,148
Filing/registration fees	1,399
Miscellaneous	18,520

Total indirect costs (A)	\$ <u>14,224,578</u>
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Direct costs:

Project development and other program activities	\$ 42,395,607
Project grants	20,417,278
Fund-raising	702,605
Other activity expenses ⁽¹⁾	638,681

Total direct costs (B)	\$ <u>64,154,171</u>
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Indirect cost rate = (A)/(B)

22%

⁽¹⁾ Other activity expenses represent internal staff time and other expenses devoted to lobbying activities.

See accompanying notes to schedule of indirect cost rate.

LOCAL INITIATIVES SUPPORT CORPORATION
(Parent Only)

Notes to Schedule of Indirect Cost Rate

Year ended December 31, 2011

(1) Accounting Policies

Basis of Calculation

In preparing the accompanying schedule of indirect cost rate and the reconciliation of the statement of activities to the schedule of indirect cost rate (note 2), Local Initiatives Support Corporation (Parent Only) (the Organization) utilized U.S. Office of Management and Budget Circular A-122, *Cost Principles for Non-Profit Organizations*.

Methodology Used

Each of the Organization's major functions benefit from its indirect costs to the same approximate degree. As a result, the Organization has elected to use the simplified-allocation method to calculate its indirect cost rate. Utilizing its audited Parent Only financial statements for the year ended December 31, 2011, the Organization separated its costs into either allowable direct or indirect categories, including the costs associated with certain activities not allowable as charges to federal awards (e.g., the cost of fund-raising).

Direct costs are those that can be identified specifically with a particular final cost objective, e.g., a particular award, project, or other direct activity of the Organization. Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular cost objective.

The indirect cost rate is the ratio of the total indirect costs (numerator) to the direct cost base (denominator).

(Continued)

LOCAL INITIATIVES SUPPORT CORPORATION
(Parent Only)

Notes to Schedule of Indirect Cost Rate

Year ended December 31, 2011

(2) Reconciliation

The following is a reconciliation of the statement of activities to the schedule of indirect cost rate for the year ended December 31, 2011:

	Total expenses per audited financial statements	Unallowable and excludable expenses	Direct and indirect cost pool	Indirect cost pool (Administration)	Indirect cost pool (Facility)	Direct cost pool
Project development and other program activities	\$ 40,743,685	(157,192)	40,586,493	(1,809,113)	—	42,395,606
Project grants	37,783,384	(17,366,106)	20,417,278	—	—	20,417,278
Interest on loans and bonds payable	6,048,808	(6,048,808)	—	—	—	—
Increase in allowance for uncollectible loans to CDCs	8,064,582	(8,064,582)	—	—	—	—
Provision for uncollectible recoverable grants to CDCs	862,677	(862,677)	—	—	—	—
Management and general	10,850,696	(303,971)	10,546,725	9,519,507	388,537	638,681
Fund-raising	6,830,370	(2,117)	6,828,253	6,125,647	—	702,606
Total expenses	\$ 111,184,202	(32,805,453)	78,378,749	13,836,041	388,537	64,154,171

Note: The adjustments above relating to the indirect cost pool administration and facility to arrive at the direct cost pool were made based on instructions from the funding agency.



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

II-1

**Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Board of Directors
Local Initiatives Support Corporation:

We have audited the financial statements of Local Initiatives Support Corporation (Parent Only) (the Organization) as of and for the year ended December 31, 2011, and have issued our report thereon dated September 25, 2012. Our report indicated that in 2011, the Organization has elected to change its method of accounting for its interest in controlled affiliates. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors and management of the Organization, and federal awarding agencies and pass-through entities, which provided funding to the Organization, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 25, 2012



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

II-3

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

The Board of Directors
Local Initiatives Support Corporation:

Compliance

We have audited the compliance of Local Initiatives Support Corporation (Parent Only) (the Organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, the Local Initiatives Support Corporation (Parent Only) complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of directors and management of the Organization, and federal awarding agencies and pass-through entities, which provided funding to the Organization, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 25, 2012

LOCAL INITIATIVES SUPPORT CORPORATION
(Parent Only)

Schedule of Findings and Questioned Costs

Year ended December 31, 2011

(1) Summary of Auditors' Results

- (a) Type of report issued on the financial statements: Unqualified opinion.
- (b) Significant deficiencies in internal control disclosed by the audit of the financial statements: None reported. Material weaknesses: No.
- (c) Noncompliance that is material to the financial statements: No.
- (d) Significant deficiencies in internal control over major federal programs: None reported. Material weaknesses: No.
- (e) Type of report issued on compliance for major programs: Unqualified opinion.
- (f) Audit findings that are required to be reported under Section 510(a) of OMB Circular A-133: No.
- (g) Major programs:
 - U.S. Department of Commerce, Chicago Community Foundation (CFDA No. 11.557)
 - U.S. Department of Housing and Urban Development, National Stabilization Program (CFDA No. 14.256) – ARRA
 - Corporation for National and Community Service, Social Innovation Fund (CFDA 94.019)
 - U.S. Department of Education, Credit Enhancement for Charter School Facilities (CFDA No. 84.354)
- (h) Dollar threshold used to distinguish between Type A and Type B programs: \$1,999,800.
- (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: Yes.

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None.

(3) Findings and Questioned Costs Relating to Federal Awards

None.



KPMG LLP
345 Park Avenue
New York, NY 10154

December 10, 2012

Audit Committee
Local Initiatives Support Corporation

Ladies and Gentlemen:

We have audited the consolidated statement of financial position of Local Initiatives Support Corporation and Affiliates (LISC), as of and for the year ended December 31, 2011, and have issued our report thereon dated September 25, 2012. In accordance with auditing standards generally accepted in the United States of America, we considered LISC's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements but not for the purpose of expressing an opinion on the effectiveness of LISC's internal control. Accordingly, we do not express an opinion on the effectiveness of LISC's internal control.

During our audit we noted a compliance matter that is presented for your consideration. This comment and recommendation has been discussed with the appropriate members of management, and is intended to improve internal control or result in other operating efficiencies and is summarized as follows. Management's response has been included in this letter for your reading convenience.

Filing of Late Report to State of Louisiana

Issue and Related Cause:

LISC receives federal funding for Community Development Block Grants/ Entitlement Grants passed through the State of Louisiana (the State). We noted that LISC did not complete its Single Audit Report in accordance with OMB Circular A-133 (the Report) for the year ended December 31, 2011 within six months of the close of LISC's fiscal year, as required by Louisiana Revised Statute 24:513. The Report was issued on September 25, 2012 and received by the Federal Audit Clearinghouse on September 28, 2012, within the timeframe stipulated by the federal government. LISC had requested and received an extension to September 30, 2012 for the filing of its 2011 A-133 Report from the Louisiana Legislative Auditor. However, in order for the State to consider it complete it should also have been filed directly with the State by June 30, 2012. The submission of the Report to the State after this deadline was due to the fact that the LISC "Parent Only" financial statements included in the Report, could not, under generally accepted accounting principles, be issued before the issuance of LISC's consolidated financial statements, which were issued September 25, 2012. Given that the LISC consolidated financial statements cannot be completed and issued by June 30th of each year, we recommend LISC management discuss its situation with the State to determine what actions can be taken to



be in compliance with the State statute, including consideration of performing a program specific audit of the grant funds administered.

Management's Response:

LISC had requested and received an extension to September 30, 2012 for the filing of its 2011 A-133 Report from the Louisiana Legislative Auditor. Before LISC can issue its A-133 report with "LISC-Parent only" audited financial statements in conformity with generally accepted accounting principles (GAAP), LISC first needs to issue its audited consolidated financial statement in conformity with GAAP. Included in LISC's consolidated financial statements are the consolidated financial statements of its affiliate, National Equity Fund, Inc. ("NEF"). In accordance with FASB ASC No. 810-20, NEF, as general partner of approximately 80 multi-investor funds (the "Funds"), is required to consolidate the financial statements of all of these multi-investor funds. Therefore, the audits for all of the Funds must be completed before NEF can complete its consolidated financial statements (and consequently, before LISC can complete its consolidated financial statements to prepare its A-133 report). The audits of the Funds are completed typically in mid-to late summer because the Funds, in turn, are dependent on the completion of audits of the underlying projects (with each Fund comprising of approximately 20 projects on average). As a result, LISC can not complete and submit its A-133 report by June 30th of the following year. LISC did file its A-133 Report within the timeframe required by federal regulations. For future reporting, LISC will coordinate with the State and plans to issue a program specific audit of the grant funds to be in compliance with the State statute.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of LISC gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss this comment and recommendation with you at any time.

This communication is intended solely for the information and use of management, others within the organization, and the Audit Committee, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP